Home affordability at 10-year low

Home affordability has dropped to a 10-year low as home prices gains have outpaced wage growth and rising interest rates have nudged up mortgage costs, according to a home affordability index released Thursday by real estate data provider Attom Data Solutions.

The index calculates affordability based on the percentage of income needed to buy a median-priced home compared to historic averages. A reading below 100 indicates affordability is worse than the historic average, while a reading above 100 indicates affordability is better than average.

The index clocked in at 92 in the third quarter of 2018, down from 95 in the previous quarter and 102 a year ago. This marks the index's lowest level since the third quarter of 2008, when it clocked in at 87.

"[T]he median buyer is now able to bid significantly less than before," said Tendayi Kapfidze, chief economist at mortgage marketplace LendingTree.

Nonetheless, homes remain more affordable than at the height of the housing boom, according to additional data provided by Attom Data Solutions. The index registered its lowest level on record in the second quarter of 2006, with a reading of 66. That was at a time when purchasing a home required 52 percent of average wages, compared to 37 percent today.

Homebuyers are now able to borrow roughly 10 percent less than they could a year ago because of the rise in interest rates alone, Kapfidze said.

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That means the number of buyers hunting for homes at every price point is falling, reducing demand and gradually cooling price growth, he said.

“This is not cause for alarm however,” Kapfidze added. “Home prices have been outpacing incomes since 2012 at a pace that is unsustainable, and a period of consolidation is healthy for the housing market.”

Seventy-eight percent of the 440 U.S. counties tracked by the index posted a reading below 100 — also a 10-year high.

The primary driver eroding affordability is a home-price recovery that has far outpaced wage growth.

Since prices bottomed out in the first quarter of 2012 — four years after the 2008 financial crisis sent the housing market into free-fall — median home prices have jumped 76 percent, while average weekly wages increased 17 percent during the same period, according to Attom Data Solutions.

Aggravating this squeeze on affordability, the average 30-year fixed mortgage rate has increased 15 percent over the same 10-year period, pushing up mortgage costs for new buyers.

The median national home price increased 6 percent year-over-year, to $250,000 in the third quarter while the average mortgage rate increased 17 percent during the same period. But wages only grew by 3 percent. When accounting for inflation, real hourly wages for non-supervisory and production workers decreased 0.1 percent from August 2017 to August 2018, according to the Bureau of Labor Statistics latest earnings summary.

Changes in affordability across the country are also influencing U.S. migration patterns, according to Attom Data Solutions Senior Vice President Daren Blomquist.

U.S. census net migration shows negative net migration for more than two-thirds of markets where buying a median-priced home requires at least $100,000 in annual income, Blomquist said. But more than three-quarters of markets where buying a median-priced home requires less than $100,000 show positive net migration, he added.

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